

HISTORY OF BANK INDONESIA : BANKING
Period from 1959-1966



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1. Highlights

In the guided economic concept, all elements of the nation was expected to participate as a revolutionary tool to achieve the revolution goals. Bank Indonesia and the banking sector were of no exception. The demand was obviously seen from the emergence of the “fighting bank” doctrines and the sole bank. As a practical revolutionary instrument, Bank Indonesia was acting as the government cashier. A number of policies issued by the government influenced the status and function of Bank Indonesia, including the function of supervising banks in the country. Furthermore, these government policies also influenced the banking life in general.



During the period, the government temporarily halted the issuance of permits of public and private savings banks due to the reviewing of the number of private banks and the emerging signs of unhealthy competitions among banks. Afterwards, through Government Regulation No. 23 of 1960 the government assured the public of legal certainty in guaranteeing secrecy of their deposits and various kinds of banking transactions. This was done so in anticipation of the public's weakening interest in saving their money in banks. Whereas funds generated from the public were badly needed to channel to productive sectors and economic development.

In the nationalization process, state banks frequently underwent changes. The changes were in the forms of merging, such as between BRI, BKTN, and NHM, as well as between Bapindo and BIN. Changes of names also took place. Bank Tabungan Pos changed to Bank Tabungan Negara, for example. The Sabang-Merauke Fighting Bank Conference was held in 1964 to reposition the banking industry in supporting the National Overall Development Planning. The conference, among other things, resulted in the integration between Bank Indonesia and state banks into the sole bank. The aim of establishing the sole bank was to effectively and efficiently guide and implement the government monetary and banking policies. On 17 August 1965, the sole bank was incorporated. Since then there were only three banks in Indonesia, namely Bank Negara Indonesia (the sole bank), Bank Dagang Negara, and Bank Pembangunan Indonesia, though in their physical operations there were six banks, each running in line with their functions.

Apart from the founding of the sole bank, guided drastic actions were also taken against the banks through the activities of the Special Investigating Team (TPC) of Bank Negara Indonesia during this period. Bank Pembangunan Daerah (Local Development Bank) was founded as well, followed by the change in the regulation of paid-up capital in establishing new private banks. In spite of the prohibiting of establishing new private banks, opportunities to establish local banks were given to the areas lacking in banking services. These included major cities such as Jakarta, Surabaya, Semarang, Bandung, Medan, Palembang, and Makassar. Meanwhile, foreign banks were allowed to open their branch/representative offices in the capital city of Jakarta, but not to generate funds from the public through clearing accounts and deposits. The leniency in giving opportunities for the opening of new banks was also accompanied by the regulation that every share had to be issued in the name of

Indonesian Citizens or Indonesian corporations owned by the Indonesians. The measure was issued to prevent foreign elements from infiltrating into the country's banking industry and to avoid any dominance of certain groups over private national banks.

2. Bank Supervision and Improvement Period II of 1959 – 1966

The banking supervision was carried out for the first time by Bank Indonesia on behalf of the Monetary Board. In 1962, the Governor of Bank Indonesia was promoted to the Minister for the Central Bank Affairs (MUBS). Since then the Monetary Board was dissolved and relieved of all its authority, including the bank supervision role. The authority was then handed to MUBS. In 1963, the government appointed the Minister for Banks and Private Asset Affairs. The Minister was assigned to supervise state and private banks, including foreign banks. With the appointment of the two ministers, the supervision on the state was separated from the private banks, though in principle the instrument employed was the same, namely Bank Indonesia. As during the previous period, the supervision and straightening up of banks was based on Banking Act No. 11 of 1959 and Government Regulation No. 1 of 1955. During the period, a number of policies relating to bank supervision were issued. These covered bank establishment/liquidation, prevention of certain groups' involvement in private banks, and bank secrecy regulations.

Article 7, paragraph (3) of Act No. 11 of 1953 states, "Bank Indonesia maintains healthy development of banking and credit affairs in the Republic of Indonesia in general, as well as national banking and credit affairs in particular." The period from 1959 – 1966 witnessed a number of changes in Indonesian banking history: from the establishment of new banks to the integration of state banks into the Sole Bank under the name of Bank Negara Indonesia through Presidential Decree No. 17 of 1965. Meanwhile, during this period, Indonesia experienced a change in economic system, namely under the guided economic system. This article describes the banking conditions in general from 1959 – 1966 , and impacts of the economic system change on the Indonesian banking sector.

Banking Act of 1953 stated that Bank Indonesia was jointly managed by the Monetary Board, the Board of Directors, and the Board of Advisers. The Monetary Board was in charge of formulating the bank monetary policies in general, giving directives to the director about the bank policies in its other affairs, and setting the bank interest rates. The Monetary Board members consisted of some Ministers and the Governor of Bank Indonesia. The Head of the Monetary Board was assumed by the Minister of Finance. In line with the regulations, Government Regulation No. 1 of 1955 stated that Bank Indonesia on behalf and for the Monetary Board conducted supervision on credit institutions to be founded in Indonesia for the sake of their solvability and liquidity in extending credits in a healthy manner based on the proper banking policy principles.

Presidential Decree No. 94 of 1962 on cabinet regrouping, among other things, declared that the Governor of Bank Indonesia was of the same rank as the Minister for the Central Bank Affairs (MUBS). Using Bank Indonesia as his institution, the minister was a non-departmental minister. Through such structural change, the Monetary Board was dissolved and the authority was then handed to the cabinet.

Through Presidential Decree No. 232 of 1963, the government appointed a minister in the Working Cabinet, namely the Minister for Private Capital and Bank

Straightening Affairs (MUPBMS). The Minister used Bank Indonesia as his apparatus in straightening up private banks. The revamping measures conducted by the Minister was in terms of institutional affairs in the form of issuing regulations that would bind the private banks (including foreign banks) terms; not related to economic and monetary issues nor supervision on state banks, since these were regulated by Minister for the Central Bank Affairs. Having performed the work for around nine months, as the Dwikora Cabinet was sworn in on 27 August 1964, the Minister for Private Capital and Bank Straightening Affairs (MUPBMS) was transferred from the Financial Compartment to the Development Compartment. The prime task of the Minister for Private Capital and Bank Straightening Affairs (MUPBMS) in realizing the guided economy was focused on altering movements and activities of private capitals from the sectors hard to observe to the development sectors in their broadest sense. In this respect, private banks had to be directed and guided to do their activities in such a way that they could serve to extend private funds to the development sectors.

Policy on Banking Sector in the Period from 1959 – 1966

This period saw various developments in the state bank group. The founding of Bank Umum Negara through Government Regulation No. 1 of 1959 was done to accommodate all assets, liabilities and business of NHB that had been nationalized.

The granting of *credietverband* – the right to take a legal action based on traditional laws and to control and/or acquire objects that, in accordance to the prevailing law, could only be obtained by people complying with the prevailing traditional laws, to BRI was legitimized by Government Regulation No.14 of 1960.

On 26 October 1960, the government founded Bank Koperasi, Tani dan Nelayan (BKTN) by virtue of Government Regulation No. 41 of 1960. At the same time, BRI and BTN were merged with BKTN through Government Regulation No. 42 of 1960. On 30 November 1960, through Finance Minister Regulation No. 263206/BUM II, NHM (*Nederlandcshe Handels Maatschapij NV*) was integrated into BKTN. BRI was merged with BKTN, supervision function on banks, rural banks, market banks and the like, previously in the hands of BRI, were shifted to BKTN. In the end of 1966 the number of banks, rural banks, village barns, market banks and the like reached 6,722, comprising 4,023 village banks, 2,691 village barns, and 8 market banks.

Through Government Regulation in lieu of Act No. 13 of 1960, the government founded Bank Dagang Negara (BDN). *Escomptobank* that had been nationalized was merged with BDN through the Regulation of the Minister of Finance No. 29103/BUM II of 1960.

Bapindo was established pursuant to Government Regulation in lieu of Act No. 21 of 1960. Then through Government Regulation in lieu of Act No. 30 of 1960 dated 25 May 1960, Bank Industri Negara (BIN) was merged with Bapindo.

Based on Government Regulation in lieu of Act No. 4 of 1963 dated 23 June 1963 that was retroactively valid from 1 January 1963, Bank Tabungan Pos was placed under the Finance Affairs, which was under the authority of Minister for the Central Bank Affairs (MUBS), and its name was then changed from Bank Tabungan Pos to Bank Tabungan Negara (BTN). The supervision of this bank was carried out by the Board of Directors of Bank Indonesia, replacing the dissolved Monetary Board.

The nationalization of the Dutch banks into state-owned banks resulted in the founding of the Sole Bank and six state-owned banks, except for Bank Indonesia as the Central Bank. These banks were:

1. Commercial Banks:

Bank Negara Indonesia (BNI)
Bank Koperasi, Tani dan Nelayan (BKTN)
Bank Umum Negara (BUNEG)
Bank Dagang Negara (BDN)

2. Development Banks: Bank Pembangunan Indonesia (Bapindo)

3. Savings Bank: Bank Tabungan Negara

The Sole Bank was incorporated in 1965, the process of which was preceded by the integrating of four state banks, namely BNI, BKTN, BUNEG, and BTN, into Bank Indonesia. The integrated banks and Bank Indonesia were further merged with the Sole Bank under the name of Bank Negara Indonesia. The number of state bank offices grew from 188 in the end of 1960 to 505 by the end of 1965. Except for West Irian, there was also one state bank office in each province all over Indonesia by the end of 1965.

One of the impacts of the currency reform policy adopted by the government on 25 August 1959 was the shortage of liquidity experienced by banks. To meet their payment obligations, these banks had to require for liquidity credits from Bank Indonesia. Due to the ensuing development and given the numerous banks that had sparked unhealthy competitions among them, the Minister of Finance issued Announcement No. 28 on 19 September 1959. The Announcement stated that the government would temporarily consider stopping to issue the licenses for establishing Commercial Banks and private national savings banks of which the applications were submitted after 25 August 1959. Exceptions were given to proposals having been received by the Ministry of Finance before 25 August 1959 and the capitals of which had been deposited at Bank Indonesia as regulated. However, under the considerations of giving the opportunities to the private sector to establish banks in local areas, especially those with insufficient bank services, through the Minister for the Central Bank Affairs (MUBS) Announcement No. 4 dated 29 August 1964, the opportunities to establish banks and branch offices of private Commercial Banks outside the major cities were given again. The number national private banks dropped slightly from 98 in 1960 to 87 in 1965. The number of their branch offices, however, grew from 103 in 1960 to 126 in 1965.

The Decree of the Minister for the Central Bank Affairs (UPBMS) No. 12/64/Kep/MUPBMS dated 20 May 1964 was issued to prevent foreign parties' infiltration into the ownership and management of national private bank. The Minister of Justice and the Minister for Central Bank Affairs issued Joint Resolution No 28/Kep/MUPBMS/65 and No. J.A.5/119/15 dated 23 October 1965 to weaken dominance over private banks by certain groups. In reality, however, the policy failed to function as expected.

The opportunities to establish national private savings banks were again given through the Minister for the Central Bank Affairs Resolution No. 35/64/Kep/MUPBMS dated 15 December 1964 completed with amendments and certain additional

requirements. To run national private savings banks, some additional regulations were added through the Resolution of the Minister for the Central Bank Affairs No. 36/64/Kep/MUPBMS dated 15 December 1964. In the end of 1965, there were 14 private saving banks, two of which had acquired permanent operating permits.

By way of Act No. 12 of 1962, the government founded Bank Pembangunan Swasta (BPS – Private Development Bank). In spite of being allowed to open its branch offices all over Indonesia, BPS only had one head office in Jakarta without any branch office. As the period ended, no BPS activities were seen.

Through Act No. 13 of 1962, regulations of local government development banks (BPDs) were issued. Institutionally, BPDs were under the control of the Ministry of Home Affairs. Meanwhile, BI and Bapindo supervised the banks in terms of their banking and company technical aspects. Regulations of opening new branch/representative offices of BPDs were issued through the Resolution of the Minister for the Central Bank Affairs No.6/63/Kep/MUBS dated 17 April 1963. The number of BPDs rose from 2 in 1959 to 22 in 1965. BPDs branch offices also went up from just 1 in 1959 to 17 in 1965.

Upon the completion of the Dutch banks nationalization, the remaining foreign banks, namely Overseas Chinese Banking Corporations, Bank of China, Hong Kong and Shanghai Banking Corporation and the Chartered Bank of India, Australia and China were all closed down. Following the closure of these foreign banks, practically there was no foreign bank operating in the country since 1965.

Bank Policy and Supervision Implementation

The bank supervision policy was based on Government Regulation No. 1 of 1955 on supervision of credit affairs which was the authority of Bank Indonesia (BNI Unit I) which was also authorized to regulate bank operations in correspond to healthy banking principles, either viewed from their liquidity, solvability, credit extending policy or compliance with the prevailing regulations.

The implementation of supervision duties has been clearly separated that bank auditors only specialized their duty on auditing banks. Different personnel conducted indirect supervision. The outcome of the supervision conducted by bank Indonesia served as the impetus to encourage banking supervision authority to issue regulations relating to institutional management and bank operational activities.

One of the cases encountered in bank supervision was the discovery of bad checks. Based on this finding, the supervisors formulated ideas and suggestions accompanied with a draft law to amend legal foundation of checks. The main essence of the draft law was to declare that issuing bad checks was a punishable crime. Apart from that, it was also proposed that the check issuers were obliged to provide funds, not by the time when checks were are cashed in, but from the time when the checks were issued. The Minister for the Central Bank Affairs followed up the proposal, and upon some deliberation in the House of Representatives (DPR), Act No. 17 of 1964 on the prohibition from issuing bad checks was enacted.

Banking regulations issued in respect to preventing foreign infiltration and dominance by certain groups over the national private banks were basically the

products of the field supervision personnel based on the experience and knowledge they gathered from such actual cases.

One of the supporting facilities in the education sector was the founding of Yayasan Akademi Bank (Bank Academy Foundation) in 1958, which was then upgraded to School of Banking and Finance (PTIKP) determined as the official school under the central bank. Apart from meeting the interest of the central bank, the state and private banks also made use of the school as a good learning center.

Through Government regulation in lieu of Act No. 23 of 1960, regulations on bank secrecy were issued. Bank secrecy covers everything that must be kept secret in relation to bank customers. This is also in the interest of banks that need to gain the public's trust to save their money in the banks. People will only entrust their money in banks if there is a guarantee that the banks will not misuse of their knowledge of customers' saving. In this way, surplus of money in circulation may be generated as much as possible to finance the development activities for productive causes.

The amount of banking credits in Indonesia from 1960 – 1965 went up from Rp 27,809.8 million in 1960 to 821,517.8 million in 1965 or with an average growth of 101.4% per year. The rapid growth was mainly due to the rising inflations during the period. When inflation rate was high, company costs of production increased because prices of raw and supporting materials rose. This drove the demands for credits from the business sector to also rise. At the time many debtors were making use of the soaring inflation rates to net profits by resorting to goods trading speculation using bank credits. In 1965 the commercial banks dominated 98.2% of the total banking credits, while savings banks and development banks each shared 0.2% and 1.6% respectively.

The the banking sector from 1959 – 1965 was quite dynamic. It began with the establishment of the Sole bank, temporary halt of new national private saving banks and Commercial Banks' establishing permits, issuing of regulations of BPD, to regulations of bad checks and bank secrecy. Meanwhile, bank supervision, which was authorized to BI to do the job, was firmly separated. During the period, in the midst of soaring inflations, the amount of credits extended by the bank rose by an average of 101.4%. per annum.

3. Banking in the Sole Bank System

The Guided Democracy affected the economic development in general, and banking and financial sector in particular. Bank Indonesia as the Central Bank became less and less independent. It was shown by the appointment of the Governor of Bank Indonesia as the Minister for the Central Bank Affairs (MUBS) and the Minister for Bank Improvement and Private Asset Affairs (MUPBMS) who employed the same Bank Indonesia apparatus. In this way, Bank Indonesia was totally under the control of the President. In 1964, a forum of "Sabang-Merauke Fighting Bank Conference" was held. The conference was discussed the ideal banking foundations and revolution ideals. The follow-up of the conference was the process of integrating Bank Indonesia with other banks aimed to directly assist the government programs and solving domestic economic problems. Further from 1965, through a presidential decree, Indonesia's banking structure was redirected to the "Sole Bank" system. Afterwards, Bank Negara Indonesia was founded. On 31 December 1968 the sole bank was dissolved and the banks originally integrated in the sole bank of Bank Negara Indonesia each returned to and solely operated as state banks.

One of the most controversial policy ever happened in Indonesia banking world was the establishment of Sole Bank in 1965. The establishment of Sole Bank named Bank Negara Indonesia was to achieve effective, efficient and guided management of the government policy in monetary and banking sector. It was also expected that Sole Bank could performed as agent of development and revolution.

This article will discuss the banking condition in the 1959-1966 periods, especially in the Sole Bank system. What was the position of the banks that were merged into Sole Bank? Did the banks functions and statuses changed or stay the same as before?



After the Constituent Board failed to construct the new constitution, President Soekarno with the support from the army released the Presidential Decree on 5 July 1959 to return 1945 Constitution (UUD 1945) as the nation fundamental law. The constitution bestowed extensive authority to the President as the head of the nation and government leader. Subsequently, on 17 August 1959 Soekarno delivered the speech titled Rediscovery of Our Revolution which was famously known as the Political Manifesto of Republic of Indonesia (Manipol). In his speech, Soekarno

mainly launched the Guided Democracy system.

Principally, Manipol involved 5 main points, namely: UUD 1945, Indonesian Socialism, Guided Democracy, Guided Economy, and Indonesian Personality,

abbreviated as USDEK. Since that moment, every movement and steps of every Indonesia components had to be based on Manipol-USDEK. Therefore, the Guided economy system required all elements of the Indonesia economy including the banking sector become the revolution tool. In guided economy, the economic activity was emphasised on the mutual help concept and spirit of brotherhood as formulised in article 33 of the 1945 Constitution. This article affirmed that the nation needed to initiate and lead the economic activity. And in the next development, the economic activity in the guided period was also based on the Indonesian economy fundamental strategy which was declared in the Economy Declaration (DEKON) by President Soekarno on 28 March 1963.

Banking Condition Post Presidential Decree 1959

Early on 1959-1960, there were 7 government banks, namely Bank Indonesia as the central bank; Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Tani dan Nelayan (BTN) and Bank Umum Negara (BUNEG) as the public bank; Bank Industri Negara (BIN) as the development bank and Bank Tabungan Pos as the savings bank. Subsequently, in relation with the nationalisation of the Dutch banks, government established the nationalisation of P.T. Escomptobank in April 1960. All of the bank's activity was taken over by Bank Dagang Negara (BDN) which was established after a short time.

In the same year, government also established Bank Koperasi, Tani dan Nelayan (BKTN) with the purpose of providing public loans, especially for the farmers and fishermen cooperatives. In order to accomplish this, government merged BRI and BTN into BKTN. Few months later, Nederlandsche Handel Maatschappij (NHM) was also adjoined in BKTN. BRI and BTN elements functioned as the public loans, especially for farmers and fishermen cooperatives, whereas NHM in BKTN still functioned as loans for other groups as before. Full integration of 3 elements in BKTN gradually began in 1962 and finished in the end 1964. Thus, beginning that year there were no separation between BKTN of export and import division with BKTN ex BRI or BTN.

In the development sector, on 25 May 1960 government established the Development Bank of Indonesia (Bapindo) with the main role as the government assistance in funding the national development projects. Formerly, the role for development bank was run by the Nation Industrial Bank (BIN) where it was inserted in Bapindo on 17 August 1960. Beside Bapindo, government also formed the Daerah Development Bank (BPD) where the regulation was regulated in Constitution (UU) No.13/1962. This bank was established with the purpose to assist the fair development in all regions of Indonesia. Alteration took place to Bank Tabungan Pos later within this period. This bank was formerly under the area of Ministry of Communication, where on 22 June 1963 it was shifted under the Ministry of Financial and changed into Bank Tabungan Negara.

After the nationalisation process of Dutch banks was over in 1960, there were still several foreign banks operated in Indonesia, namely: The Chartered Bank, Hongkong Shanghai Banking Corporation, Oversea Chinese Banking Corporation, Great Eastern Banking Corporation and Bank of China. These banks were the foreign exchange banks and worked in export and import sector. Even though their roles were lessening, these foreign banks were known to have a better financial ability compared to the government banks.

In 1963 when Indonesia was in the middle of confrontation with Malaysia, the Oversea Chinese Banking Corporation (OCBC) business permit was revoked. The confrontation was getting intense and caused Hongkong and Shanghai Banking Corporation (HSBC) to demand for end its operation in the early of 1964. The same thing applied for Bank of China. By assuming that British was the master of the establishment of the Malaysia Confederation, in December 1964 the RI government decided to run all British companies in Indonesia, including the Chartered Bank. Based on the Decree of the Minister for the Central Banking Affairs dated 17 February 1965, all assets owned by The Chartered Bank in Jakarta were surrendered to the Nation Public Bank (BUNEG). The bank assets in Surabaya and Medan were surrendered to Indonesia Nation Bank (BNI).

With all the changes that was taking place, since 1964 there was not any foreign banks operated in Indonesia. Meanwhile, the government banks comprising 7 banks namely: Bank Indonesia (BI) as the central bank, Bank Negara Indonesia (BNI), Nation Public Bank (BUNEG), Bank Koperasi Tani dan Nelayan (BKTN), Nation Trade Bank (BDN) as the public bank; Indonesia Development Bank (Bapindo) as the development bank and Bank Tabungan Negara (BTN) as the savings bank. All of these 7 banks continued to remain until the era of Sole Bank establishment in 1965.

The Sole Bank establishment was the biggest momentum in the banking world which occurred during the Guided Democracy era. Sole bank was an organised bank system in one power in fulfilling the Overall Development Scheme planned by the government. Before the realisation of Sole Bank, government had to begin the development process of Sole Bank gradually since the Presidential Decree of 5 July 1959 was issued. Within the process was the formation of the Central Bank Affairs ministry and Bank Orderliness and Private Capital to control banking, including government banks and private banks.

In 1962, the Governor of Bank Indonesia was promoted as the Central Bank Affairs Minister as part of the Financial Sector in the Working Cabinet. Since that, the Monetary Board was suspended with all of its authorities shifted to the Cabinet. Following this in 1963, President also added one more minister for the Financial Sector, namely Bank Orderliness and Private Capital. With this promotion, the authority of bank guidance and supervision which was formerly controlled by the Central Bank Affairs Minister (MUBS) shifted to the Bank Orderliness Affairs and Private Capital Minister (MUPBMS). After operating for less than nine months, on 27 August 1964 the Bank Orderliness Affairs and Private Capital shifted from the Financial Compartment to the Development Compartment. Following the alteration, MUPBMS received the duty to guide the private banks which was expected to be able to provide funds for the development.

The Next Episode

With the guided economy system, government attempted to encourage the government banks as the guided revolution tool. In accomplishing this, the banking structure gradually directed to the sole bank system.

What are the steps taken by the government in achieving this? What was the purpose of the Sole Bank establishment? Expect the answers in the next article.

Bank Berdjoang Doctrine

With the Guided Economy system, government attempted to encourage the government banks as the guided revolution tools. Therefore, a united soul, mind and action were required within the government banks. As the initial step, the Board for Ministerial Advices of Central Bank Affairs involving the MUBS assistances and the directors of the government banks was established. Through this board, the leaders of the government banks were involved together in the formulation of the banking regulations. Subsequently, with the aim of to synchronise the ideal banking structure with the revolution goal that was emphasised in Manipol and DEKON, meeting of Bank Berdjoang Confrence of Sabang-Merauke took place in 1964. This meeting was attended by all leaders of branch government banks in all Indonesia, including West Irian, and the representatives of the typical company and private national banking.

With the spirit of mutual help among the banking community, the meeting formulised a conclusion that was contained in the Bank Berdjoang Doctrine. The Doctrine primarily comprising five points known as Panca Sakti Bank Berdjoang, namely:

1. Bank as the revolution tool had to follow the Economic Declaration
2. All banks had the same mission.
3. Run the manpower politics and high quality democratic education with Manipol-USDEK
4. Bank to enhance the brotherhood spirit within the bank companies as stated in the article 33 UUD 1945
5. Executed integration between the banking struggles and the people struggles

More distinctively these five points was translated in the Struggle of Bank Berdjoang Program, namely:

1. Bank Berdjoang oriented to the Overall National Development not only based on the profit orientation with the motive to gain maximum profit
2. Bank Berdjoang provided loans based on the proposed production plan
3. Bank Berdjoang dynamic-actively directly engaged in the national economic life, especially when stagnation occurred

Consequences from the conception of bank Berdjoang was the integration process between government banks in assisting directly the government program in handling the nation economy efficiently. As previously established in August 1964, Board of Minister Assistance for Central Bank Affairs which involved all director members of government banks in assisting MUBS to run its policy. As the standing committee from Body Pembantu MUBS, Badan Pembantu Harian MUBS was established.

After the development at the end of 1964, MUBS initiated the specialisation principles execution within government banks by fixing the department that needed to be assisted by the government banks. BI, BNI, BKTN, BDN and BUNEG were involved in the government banks management. These banks had become such Development Bank who funded the development projects run by the government department.

Sole Bank Establishment: Bank Negara Indonesia

Integration process of the government banks began to appear more obvious after on 11 April 1965 President Soekarno in front of the General Assembly of MPRS affirmed that the Indonesia Banking structure gradually directed to the Sole Bank system. Through this system, government policies in the monetary and banking area was expected to implemented in an effective, efficient and directed way for the success execution of government program struggles.

Before establishing Sole Bank, integration of the nation public banks, bank tabungan Negara was performed within bank central. The integration was stipulated through the Presidential Decree No. 8/1965 dated 4 June 1965. Afterwards, on the same date integration BKTN in BI was executed. Following next was the integration of BUNEG, BTN and BNI to BI on 21 June 1965. However, the integration did not follow the Presidential Decree. Concretely, only BTN who was really integrated with BI, while the other three government banks had not yet actually integrated in BI.

Consequently on 27 July 1965, the policy for the Sole Bank establishment through the Presidential Decree No. 17/1965 named Bank Negara Indonesia with the duty to run the activity as circulation bank, central bank as well as the public bank. The presidential decree for the Sole Bank establishment was executed through the Central Bank Affairs Minister Decree No. 65/UBS/65 dated 30 July 1965 commenced since 17 August 1965. Since this moment, all office banks that was merged into the Sole Bank operated with the following names: BI with the name Bank Negara Indonesia Unit I, BKTN with the name Bank Negara Indonesia Unit ii, BNI with the name Bank Negara Indonesia Unit III, BUNEG with the name Bank Negara Indonesia Unit IV and BTN with the name BNI Unit V.

Within the establishment of the Sole Bank, BDN and Bapindo were not involved. The absence of BDN from sole bank caused by the rejection from the BDN President Director, JD Massie acting as the Minister of Banking Penertiban and Private Capital. He affirmed disapproval on the Sole Bank establishment to President Soekarno, even though Massie together with other government banks leaders signed the meeting's end result that agreed on the establishment of Sole Bank. Massie considered that the Sole Bank concept that unites the central banks with other public banks would confuse the correspondent overseas. Massie's opinion was quite reasonable for the President to accept even though he had already approved Sole Bank run by Jusuf Muda Dalam as the Central Bank Affairs Minister. And since Bapindo remained as the development bank not as the public bank, it was not merged with the other government banks into the Sole Bank.

After Sole Bank was officially established, government stipulated the aim of the Sole Bank, namely:

1. As the Revolution Tool and Abdi Ampera inspired by Dekon and other revolution doctrines, actively participated in all kinds of revolution efforts in the community development of Indonesia Socialism based on Pancasila
2. As the Revolution Tool in attempting the Bank Berdjoang efforts to maintained and encouraged activities in economy and finance area abiding the Pemimpin Besar Revolusi and government policy.

3. As the active, dynamic and creative Revolution Tool, together with New Emerging Forces (NEFO) participated in cooperation in economy monetary field to accomplish the New World free from human to human exploitation.
4. As the Revolution Tool awakening and nourishing inspiration and swadaya of the Workers as the Revolution masters to perform Amanat Berdikari in accomplishing Trisakti Tawar
5. As the Revolution Tool, delivered bank services with all power and ways to the pelosok to integrate itself to the community and actively explored people potential.

Besides stipulating the aim of Sole Bank, government had also prepared the main organisation structure of Bank Negara Indonesia within the alteration phase. In the alteration organisation there were three sole bank organisation bases, namely centralisation, specialisation and de-concentration. With the centralisation base MUBS obtained the authority to determine the policy to lead the sole bank with commando principal. Specialisation was the directed activity on the economy objects. Where dekonstruksi was the management authority awarded to the daerah² in performing daily activities.

Banking Condition after the Establishment of Sole Bank

In the Sole Bank system, the banks was specifically required to fund the major government projects such as: politically non-economy projects for instance CONEFO (Conference of the New Emerging Forces), the construction of the National Monument, Istiqlal Mosque including the projects with economy aspects such as the development of Sarinah and Banteng Hotel. These projects had caused huge deficit on the government budget and caused hyper-inflations that reached its climax in 1966, where it reached 635.3% per year.

Awhile after the establishment of Sole Bank, 30 September 1965 incident happened which triggered the Soekarno Guided System to collapse followed with the decline of other product systems, including the Sole Bank system. Following the released of Order Letter 11 March 1966, Soekarno authority weakened. Various fundamental changes occurred in all areas, both politically and economically.

In the security nation finance and supervision as well as recovery of banking structure as stipulated in article 55 MPRS Decree No. XXIII/MPRS/66, government had delivered eight models of Constitutions (RUU) to DPRGR, which was RUU on Banking Fundamentals, about Central Bank and six RUU about the Government Banks establishment. While waiting for the RUU to be legalised, all government banks was stipulated to continue their own business according to the old constitutions which stipulated the establishment of each banks. Based on this decree, the Sole Bank system was practically over.

At the end of 1967, RUU on Banking Fundamentals was completed. This RUU was then legalised by the President as constitutions, namely UU No. 14 of 1967 on Banking Fundamentals. Consequently with the Finance Minister Decree No. Kep. 01/M/IV/1/1968 dated 10 January 1968, this constitution was officially valid commencing 1 January 1968.

In 1968, discussion other RUU continued and in December 1968 all RUU was finally completed and was legalised by the President as constitutions, namely:

1. Constitution No. 13 of 1968 on Central Bank
2. Constitution No. 17 of 1968 on Bank Negara Indonesia 1946.
3. Constitution No. 18 of 1968 on Bank Dagang Negara.
4. Constitution No. 19 of 1968 on Bank Bumi Daya.
5. Constitution No. 20 of 1968 on Bank Tabungan Negara.
6. Constitution No. 21 of 1968 on Bank Rakyat Indonesia
7. Constitution No. 22 on Export Import Bank Indonesia

The Finance Minister Decree No. Kep. 600/M/IV/12/1968 dated 18 December 1968 stipulated that all of the above constitutions were valid as on 31 December 1968. With the validity of these Constitutions, the government banks that were previously few units joint in the Sole Bank of Indonesia State, each became an independent government bank based on its own constitutions since 31 December 1968.

The banks integration into Sole Bank was apparently camouflaged since these banks remained to operate their own duties and functions the same as before the merging took place. The delay of the Sole Bank operation was caused by the unclear concept of the Sole Bank itself, in addition to the G30S/PKI incident which involved the leader of Bank Negara Indonesia, Jusuf Muda Dalam. As a consequence, in 1968, Sole Bank was divided over again. The banks that were previously merged in the Sole Bank returned as independent banks.

4. Direction of Banking Policies 1959 – 1966

During this period of guided democracy and economy, all the national assets including the banking sector were directed by the government to support the nationalism drive, namely consolidating the country' sovereignty, culture, identity and self sufficiency.

During this period of guided democracy and economy, all the national assets including the banking sector were directed by the government to support the nationalism drive, namely consolidating the country' sovereignty, culture, identity and self sufficiency. In a bid to prevent unhealthy competition, on 19 September 1959, the Government suspended the granting of licenses to establish commercial banks and private saving banks. Subsequently, as the nationalization drive continued, the Government took over the Dutch banks and closed the other foreign banks as their existence was considered contrary to the guided economic system. Further, the Government took some measures to develop the national banks by setting up a number of state-owned banks.

At the end of 1959, the Government incorporated Bank Umum Negara (BUNEG) at the end of 1959 aimed to pool the entire assets and take over the Nationale Handelsbank (NHB) which had been nationalized in the same year. BUNEG was later assigned to act as a commercial bank in a wider scope. Afterwards in 1960, the Government established new banks.

On 12 April 1960, the Government established Bank Dagang Negara (BDN) which was assigned to act as a commercial bank in a wider scope. This bank was further assigned to take over the assets and liabilities of Nederlandsche Indische Escompto Maatschappij (Escomptobank) already nationalized in 1957 and declared being dissolved.

In the following month, namely on 25 May 1957, the Government set up Bank Pembangunan Indonesia (Bapindo) aimed to assist the Government in funding the Overall National Development Plan. On the same day, Bank Industri Negara (BIN) was merged to Bapindo.

In 1960, Bank Koperasi Tani dan Nelayan (BKTN) was established. The bank was responsible for extending loans aimed to develop cooperatives to boost the people's economy based on the principle of togetherness and improving the farmers and fishermen's welfare. At the same time, Bank Rakyat Indonesia was merged to BKTN. Following this merger, the duties to supervise and enhance the rural banks, village rice barns, cooperatives, small trader banks and similar banks previously carried out by BRI were shifted to BKTN. Furthermore, in November 1960, Nederlandsche Handel Maatschappij (NHM) was merged with BKTN.

To provide legal certainty and guarantee the customers' saving and transaction secrecy, the Government issued Government Regulation in lieu of Act No. 23 of 1960 concerning bank secrecy.

Another issue that affected the bank supervision was the merger of Bank Indonesia, Bank Umum Negara, Bank Tabungan Negara, BKTN, and Bank Negara Indonesia to a sole bank called "Bank Negara Indonesia" on 17 August 1965. The execution of the merger proved difficult given the unique business characteristics of the respective banks. This forced the Government to set up Bank Negara Indonesia of Units I – V.

5. Strategic Steps 1959 – 1966

In the beginning of this period, the Government was busy resolving the nationalization of the Dutch banks. Upon the nationalization of the Dutch banks, the other foreign banks were closed down.

In the beginning of this period, the Government was busy resolving the nationalization of the Dutch banks. Upon the nationalization of the Dutch banks, the other foreign banks were closed down. As a result, not a single foreign bank was operating in Indonesia. The status change of the Dutch banks to state banks had added the number of state banks that were operating. As a consequence, the role of these banks was becoming more dominant in the Indonesian banking activities.

The government's major intervention to the banking activities led to the policy to place the banks under a single command system in compliance to the Guide Economic principle. This policy originated from the establishment of the Sole Bank called Bank Negara Indonesia in 1965. This state bank was the result of merging state commercial banks, and Bank Tabungan Negara into Bank Indonesia. The Sole Bank served as the circulation bank, central bank and simultaneously a commercial bank. However, Bank Dagang Negara and Bank Pembangunan Indonesia were spared from the merge to the Sole Bank.

On 25 August 1959, the Government introduced the monetary sanitation policy. One of the impacts resulting from this policy was liquidity shortage by the banks. In respect to this policy, and in view of the numerous national private banks already in operation, banks began to show their unhealthy conditions. In respond to this, the Government via the Minister of Finance announced that temporarily it would not grant any establishment licenses for new commercial banks and national private saving banks for applications lodged after 29 August 1959. This provision was valid until 1964. During this vacuum, the government policies were focused on amending the requirements for the banks' capital, ownership and management to correspond with the developments.

In 1964, the Government finally decided to award the licenses for bank establishments again but limited to outskirts areas of major cities. Meanwhile, new saving banks were allowed to be established all over the country.

Upon the completion of the Bank Control course, BI had a sufficient number of bank controllers. The bank supervising duties began to be strictly divided into two, namely bank inspection and indirect supervision. As a result of this supervision and inspection, the team discovered unsound banking practices, among others: bank within a bank. The unscrupulous bank officers finally fled and took away the money collected from the customers. Upon the recommendation from these bank controllers, the Minister for Bank Scrutinizing Affairs and Minister for Central Bank Affairs drafted a act to amend the legal foundation for the cheques. The draft act was endorsed by the House of Representatives on 26 September 1964. The Government

passed the Act No. 17 of 1964 regarding the prohibition of drawing bad cheques. In addition, to prevent any infiltration by the foreign parties and domination by the certain individuals or certain group of people over the national private bank, over the recommendation of the bank controllers, the Minister for Bank Scrutinizing Affairs and Minister for Central Bank Affairs amended and added the regulations associated with the nationalities of the shareholders and bank management, as well organization within the banks.

In 1960, the Government passed the regulation on the bank secrecy through Government Regulation in lieu of Act No. 23 dated 9 June 1960. This provision was required to create a favorable climate for the sound development of banks. In this way, the banks were able to maximally assume their role as the institution in charge of money and capital traffic.

To enhance the human resource professionalism, the Government founded the Bank Academy Foundation in 1958 with the support from BI, state banks and private banks. This status of this academy was changed to the Institute of Finance and Banking (PTIKP). The Government turned this institute into a training institute directly managed by the Central Bank.

6. Strategic Goals 1959 – 1966

The Minister of Central Bank Affairs, which was authorized to supervise the state banks and regional development banks during this period, focused his attention on resolving the legal aspects of the state banks set up in this period, and went ahead with the nationalization of the Dutch banks.

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In the meantime, the supervision exerted by the Minister for Controlling the Private Capital was focused on granting permanent business licenses to the national private banks.